

KINGSTON COMMUNITY SCHOOLS

Kingston, Michigan

REPORT ON FINANCIAL STATEMENTS

(with required supplementary and
additional information)

June 30, 2006

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July 20, 2006

INDEPENDENT AUDITOR'S REPORT

Board of Education
Kingston Community Schools
Kingston, Michigan 48741

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kingston Community Schools, as of and for the year ended June 30, 2006, which collectively comprise the basic financial statements of the District's primary government as listed in the table of contents. These financial statements are the responsibility of Kingston Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Kingston Community Schools as of June 30, 2006 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2006, on our consideration of the Kingston Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages i through vii and page 21, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Education
Kingston Community Schools
July 20, 2006

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Kingston Community Schools' basic financial statements. The additional information on pages 22 to 43 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Kingston Community Schools
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006

Kingston Community School District, a K-12 school district located in Tuscola County, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Kingston Community School District administration's discussion and analysis of the financial results for the fiscal years ended June 30, 2006 and June 30, 2005.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: fund financial statements and government-wide financial statements.

Fund Financial Statements

For the most part, the fund financial statements are comparable to prior years' financial statements. The primary difference is that the Account Groups (General Fixed Assets and General Long – Term Debt) are no longer reported. The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, school districts' major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds. These include Special Revenue Funds and Debt Service Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt service are not recorded in the fund financial statements.

Government-wide Financial Statements

The government-wide financial statements are required by GASB 34. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. All of the District's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as the bonded debt of the District.

Kingston Community School
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006

Summary of Net Assets

The following schedule summarizes the net assets at fiscal year ended June 30, 2005 and 2004:

Assets	<u>6/30/06</u>	<u>6/30/05</u>
Current assets	\$2,172,568	\$2,354,667
Capital assets	12,792,718	12,754,686
Less: Accumulated depreciation	<u>(5,081,122)</u>	<u>(4,656,795)</u>
Capital assets, net book value	7,711,596	8,097,891
Total assets	<u>\$9,884,164</u>	<u>\$10,452,558</u>
Liabilities		
Current liabilities	\$1,208,076	\$1,283,762
Long-term liabilities	<u>6,976,054</u>	<u>7,151,429</u>
Total liabilities	8,184,130	8,435,191
Net Assets		
Invested in capital assets, net of related debt	581,640	726,423
Restricted for debt service	261,634	216,058
Restricted for Woloshen	144,198	141,046
Unrestricted	<u>712,562</u>	<u>933,840</u>
Total net assets	1,700,034	2,017,367
Total liabilities and net assets	<u>\$9,884,164</u>	<u>\$10,452,558</u>

Analysis of Financial Position

During the fiscal year ended June 30, 2006, the District's net assets decreased by \$317,333. A few of the more significant factors affecting net assets during the year are discussed below.

1. Depreciation Expense

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal years ended June 30, 2006 and June 30, 2005, \$424,327 and \$384,584 were recorded for depreciation expense.

Kingston Community School
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2006, \$38,032 of expenditures were capitalized and recorded as assets of the District. These additions to the District's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets and the current year's depreciation is a decrease to capital assets in the amount of \$386,295 for the fiscal year ended June 30, 2006.

Results of Operations

For the fiscal year ended June 30, 2006 and 2005, the results of operations, on a District-wide basis, were:

	<u>Year Ended June 30,</u> <u>2006</u>		<u>Year Ended June, 30,</u> <u>2005</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
General Revenues				
Property Taxes	\$736,082	12.30%	\$ 718,636	11.96%
Investment earnings	36,807	0.61%	55,143	0.92%
State sources	4,486,863	74.96%	4,485,952	74.66%
Other	<u>165,885</u>	<u>2.77%</u>	<u>239,920</u>	<u>3.99%</u>
Total general revenues	5,425,637	90.64%	5,499,651	91.53%
Program Revenues				
Charges for services	204,132	3.41%	192,724	3.21%
Operating grants	<u>355,850</u>	<u>5.95%</u>	<u>316,195</u>	<u>5.26%</u>
Total revenues	\$5,985,619	100.00%	\$6,008,570	100.00%
Expenses				
Instruction	\$3,331,876	52.86%	\$3,313,326	52.31%
Support services	1,777,059	28.19%	1,679,376	26.52%
Food services	243,951	3.87%	232,808	3.68%
Athletics	141,582	2.25%	123,830	1.96%
Interest on long-term debt	274,173	4.35%	437,487	6.91%
Unallocated depreciation expense	424,327	6.73%	384,584	6.07%
Other	<u>109,984</u>	<u>1.75%</u>	<u>162,221</u>	<u>2.56%</u>
Total expenses	<u>\$6,302,952</u>	<u>100.00%</u>	<u>6,333,632</u>	<u>100.00%</u>
Increase in net assets	\$(317,333)		\$ (325,062)	

Kingston Community School
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006

Analysis of Significant Revenues and Expenses

Significant revenues and expenditures are discussed in the segments below:

1. Property Taxes

The District levied 17.0432 mills of property taxes for operations on non-homestead properties. According to Michigan law, the taxable levy is based on the taxable valuation of properties. The annual taxable valuation increases are capped at the rate of the prior year's Consumer's Price Index increase or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is half of the property's market value.

For the 2005-2006 fiscal year, the district levied \$254,014 non-homestead property taxes. This represented an increase of \$5,349 from the prior year. The amount of unpaid property taxes at June 30, 2006, less an estimate for those deemed to be un-collectible, was \$2,800.

The following table summarizes the non-homestead property tax levies for operations for the past five years:

Fiscal Year	Non-homestead Tax Levy	Increase (Decrease) from prior year
2005 – 2006	\$254,014	\$5,349
2004 – 2005	248,665	15,652
2003 – 2004	233,013	9,425
2002 – 2003	223,588	

2. State Sources

The majority of the state sources is comprised of the per student foundation allowance. The State of Michigan funds districts based on a blended student enrollment. The blended enrollment consists of 75% of the current year's fall count and 25% of the prior year's spring count. For the 2005 – 2006 fiscal year, the District's foundation allowance was \$6,875 per student FTE, which represented an increase of 1.03% over the amount received for the 2004 – 2005 fiscal year.

3. Student Enrollment

The following schedule lists the actual blended student FTE for the past five fiscal years:

	Actual Blended Student FTE
2005 – 2006	649
2004 – 2005	668
2003 – 2004	663
2002 – 2003	758
2001 – 2002	736

Kingston Community School

Management's Discussion and Analysis

For Fiscal Year Ended June 30, 2006

4. Operating Grants

The District funds a significant portion of its operations with categorical sources. For the fiscal year ended June 30, 2006, federal, state and other operating grants accounted for \$355,850. This represents an increase of \$39,655 over the total grant sources received for the 2004 – 2005 fiscal year.

5. Interest Earnings

The District received interest on its investments in the amount of \$36,807 for the fiscal year ended June 30, 2006. This represents an increase over the prior fiscal year of \$13,515.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1st. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30th.

For the 2005 – 2006 fiscal year, the district amended the general fund budget two times with the Board adopting the final changes in June 2006. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	Original Budget	Final Budget	Actual	Variance with Final Budget positive (negative)	% Variance
Total revenues	<u>5,200,383</u>	<u>5,152,128</u>	<u>5,188,695</u>	<u>36,567</u>	<u>0.7%</u>
Expenditures					
Instruction	3,235,696	3,306,124	3,320,645	(14,521)	(0.44)%
Supporting services	1,891,309	1,839,882	1,810,278	29,604	1.64%
Other	<u>72,337</u>	<u>103,041</u>	<u>102,655</u>	<u>386</u>	<u>0.38%</u>
Total expenditures	<u>5,199,342</u>	<u>5,249,047</u>	<u>5,233,578</u>	<u>15,469</u>	<u>1.58%</u>

Capital Asset and Debt Administration

Capital Assets

By the end of the 2005 – 2006 fiscal year, the district had invested \$12,792,718 in a broad range of capital assets, including school buildings and facilities, school buses and other vehicles, and various types of equipment. This represents an increase of \$ 38,032 over the prior fiscal year. Net depreciation expense for the year amounted to \$424,327, bringing the accumulation to \$5,081,122 as of June 30, 2006.

Kingston Community School

Management's Discussion and Analysis

For Fiscal Year Ended June 30, 2006

Long- term Debt

At June 30, 2006, the District had \$7,231,372 in long-term debt outstanding. This represents a reduction of \$225,468 over the amount outstanding at the close of the prior fiscal year.

Factors Bearing on the District's Future

At the time that these financial statements were prepared and audited, the District was aware of the following items that could significantly affect its financial health in the future.

- With the current economic condition in the country, and especially in the State of Michigan, uncertainty surrounds the level at which districts will be funded for the student foundation allowance for the 2005 – 2006 fiscal year. The early indication is that the foundation allowance will increase by about 3.1% which will pose a challenge to the District to maintain structural balance while continuing with its educational programming.
- As with other employers, the District continues to face a rapid increase in rates paid for employee benefits, particularly for health insurance. Additionally, the State has increased the retirement rate from 14.87% to 16.34% through September 30, 2006 to fund the retirement system. The increase in the number of retirees projected to occur over the next few years may result in higher annual increases.
- The contract with the Kingston Community Schools Education Association, the union that represents the teaching staff, expires August 31, 2007.
- The state of Michigan continues to increase its focus on student achievement. Results of standardized test scores (Michigan Education Assessment Program) are compared from year to year, with the results being tabulated by school building and by district. With the changes to the federal Title I legislation resulting from the No Child Behind Act, adequate yearly progress of students will be more important as certain portions of funding are now tied to it.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact:

George C. Bednorek, Superintendent
Kingston Community Schools
5790 State St.
Kingston, MI 48741
(989) 683-2294

BASIC FINANCIAL STATEMENTS

KINGSTON COMMUNITY SCHOOLS
STATEMENT OF NET ASSETS
June 30, 2006

	ASSETS	GOVERNMENTAL ACTIVITIES
CURRENT ASSETS:		
Cash and equivalents		\$ 88,338
Investments		1,236,510
Due from other governmental units		844,920
Property taxes receivable		2,800
Inventory		-
TOTAL CURRENT ASSETS		<u>2,172,568</u>
NONCURRENT ASSETS:		
Capital assets		12,792,718
Less accumulated depreciation		<u>(5,081,122)</u>
TOTAL NONCURRENT ASSETS		<u>7,711,596</u>
TOTAL ASSETS		<u>\$ 9,884,164</u>
	LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:		
Accounts payable		\$ 16,224
Accrued salaries and wages		300,815
Accrued employee benefits		105,805
Deferred Revenue		16,818
State aid note payable		450,000
Accrued interest payable		63,096
Bus Notes Payable		10,318
Current portion of long term debt		<u>245,000</u>
TOTAL CURRENT LIABILITIES		<u>1,208,076</u>
NONCURRENT LIABILITIES:		
Bonds Payable		6,874,638
Compensated absences		<u>101,416</u>
TOTAL NONCURRENT LIABILITIES		<u>6,976,054</u>
NET ASSETS:		
Invested in capital assets, net of related debt		581,640
Restricted for debt service		261,634
Restricted for Woloshen		144,198
Unrestricted		<u>712,562</u>
TOTAL NET ASSETS		<u>1,700,034</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 9,884,164</u>

The accompanying notes are an integral part of the financial statements.

KINGSTON COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets
Governmental activities:				
Instruction	\$ 3,331,876	\$ 61,574	\$ 153,350	\$ (3,116,951)
Support services	1,777,059	26,389	65,722	(1,684,949)
Community service	81,143			(81,143)
Food services	243,951	80,509	136,778	(26,664)
Athletics	141,582	35,660		(105,922)
Public Library	25,222			(25,222)
Woloshen	2,453			(2,453)
Interest on long-term debt	274,173			(274,173)
Other	1,166			(1,166)
Unallocated depreciation	424,327			(424,327)
Total governmental activities	<u>\$ 6,302,952</u>	<u>\$ 204,132</u>	<u>\$ 355,850</u>	<u>(5,742,970)</u>
General revenues:				
Property taxes, levied for general purposes				254,014
Property taxes, levied for debt service				482,068
State of Michigan school aid unrestricted				4,486,863
Investment revenue				36,807
Penal fines				25,307
Miscellaneous				140,578
Sale of fixed assets				-
Total general revenue				<u>5,425,637</u>
Change in net assets				(317,333)
Net assets, beginning of year				<u>2,017,367</u>
Net assets, end of year				<u>\$ 1,700,034</u>

The accompanying notes are an integral part of the financial statements.

KINGSTON COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	GENERAL FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash and equivalents	\$ 73,164	\$ 15,174	\$ 88,338
Investments	738,316	498,194	1,236,510
Due from other governmental units	842,695	2,225	844,920
Inventory		-	-
<u>TOTAL ASSETS</u>	<u>\$ 1,654,175</u>	<u>\$ 515,593</u>	<u>\$ 2,169,768</u>
 <u>LIABILITIES AND FUND BALANCE</u>			
LIABILITIES:			
Accounts payable	\$ 16,224	\$ -	\$ 16,224
Salaries payable	300,815		300,815
Accrued employee benefits	105,805		105,805
Accrued interest	13,806		13,806
Deferred revenue	16,818		16,818
State aid note payable	450,000		450,000
<u>TOTAL LIABILITIES</u>	<u>903,468</u>	<u>-</u>	<u>903,468</u>
FUND BALANCE:			
Reserved for debt service			-
Unreserved:	750,707	190,863	941,570
Reserved		324,730	324,730
<u>TOTAL FUND BALANCE</u>	<u>750,707</u>	<u>515,593</u>	<u>1,266,300</u>
<u>TOTAL LIABILITIES & FUND BALANCE</u>	<u>\$ 1,654,175</u>	<u>\$ 515,593</u>	<u>\$ 2,169,768</u>

The accompanying notes are an integral part of the financial statements.

KINGSTON COMMUNITY SCHOOLS
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
June 30, 2006

Total Fund Balances - Governmental Funds	\$ 1,266,300
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Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not
financial resources and are not reported in the funds

The cost of the capital assets is:	12,792,718
Accumulated depreciation is:	(5,081,122)

Long term liabilities are not due and payable in the current
period and are not reported in the funds

Bonds payable:	(7,119,638)
Bus notes payable	(10,318)
Compensated absences:	(101,416)
Accrued interest is not reported as a liability in governmental funds; it is recorded when paid:	(49,290)

Balance of taxes receivable at 6/30/06 less allowance for doubtful accounts	<u>2,800</u>
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Net Assets of Governmental Activities	<u><u>\$ 1,700,034</u></u>
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The accompanying notes are an integral part of the financial statements.

KINGSTON COMMUNITY SCHOOLS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	GENERAL FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:			
Local sources	\$ 498,347	\$ 641,333	\$ 1,139,680
State sources	4,471,276	15,587	4,486,863
Federal sources	219,072	136,778	355,850
TOTAL REVENUES	5,188,695	793,698	5,982,393
EXPENDITURES:			
Instruction	3,320,645		3,320,645
Supporting services	1,810,278		1,810,278
Community services	81,143		81,143
Food Service		243,951	243,951
Athletic Activities		141,582	141,582
Public Library		25,222	25,222
Woloshen		2,453	2,453
Debt services:			
Retirement of bonds & bus notes	21,512	169,863	191,375
Interest on bonded debt		330,179	330,179
Fees		1,166	1,166
TOTAL EXPENDITURES	5,233,578	914,416	6,147,994
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(44,883)	(120,718)	(165,601)
OTHER FINANCING SOURCES (USES):			
Transfer to/from other funds	(150,285)	150,285	-
Payments from ISD	3,226		3,226
TOTAL OTHER FINANCING SOURCES (USES)	(147,059)	150,285	3,226
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES & OTHER SOURCES (USES)	(191,942)	29,567	(162,375)
FUND BALANCE - BEGINNING OF YEAR	942,649	486,026	1,428,675
FUND BALANCE - END OF YEAR	\$ 750,707	\$ 515,593	\$ 1,266,300

The accompanying notes are an integral part of the financial statements.

KINGSTON COMMUNITY SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
June 30, 2006

Total net change in fund balances--governmental funds	\$ (162,375)
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of these assets are allocated over their useful lives as depreciation:

Depreciation expense	(424,327)
Capital outlay	38,032

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)

Repayment of bond principal	220,000
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Bus note repayments and proceeds affect long term liabilities in the statement of net assets and does not affect the statement of activities.

Repayment of bus note principal	21,512
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources.

Accrued interest payable at the beginning of the year	55,159
Accrued interest payable at the end of the year	(49,290)

Accrued compensated absences are recorded in the statement of activities when incurred, but it is not recorded in the governmental funds until it is paid.

Accrued absences at the beginning of the year	85,372
Accrued absences at the end of the year	(101,416)

Change in net assets of governmental activities	<u>\$ (317,333)</u>
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The accompanying notes are an integral part of the financial statements.

KINGSTON COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2006

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	\$ 57,788
TOTAL ASSETS	<u>\$ 57,788</u>
<u>LIABILITIES AND NET ASSETS</u>	
Due to student organizations	\$ 57,788
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 57,788</u>

The accompanying notes are an integral part of the financial statements.

KINGSTON COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The basic financial statements of the Kingston Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

In 2004, the District implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB Statement No. 34), GASB Statement 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government: Omnibus* which provides additional guidance for the implementation of GASB Statement 34, and GASB Statement No. 38, *Certain Financial Disclosures* which changes note disclosure requirements for governmental entities.

GASB Statement 34 established a new financial reporting model for state and local governments that included the addition of management's discussion and analysis, district-wide financial statements, required supplementary information and the elimination of the effects of internal service activities and the use of account groups to the already required fund financial statements and notes.

The GASB determined that fund accounting has and will continue to be essential in helping governments to achieve fiscal accountability and should, therefore, be retained. The GASB also determined that district-wide financial statements are needed to allow user's of financial reports to access a government's operational accountability. The new GASB model integrates fund-based financial reporting and district-wide financial reporting as complementary components of a single comprehensive financial reporting model.

REPORTING ENTITY:

The Kingston Community Schools (the "District") is governed by the Kingston Community Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. Also, based on the same criteria, there are no potential component units of government which are required to be included in the reporting entity for Kingston Community Schools.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

KINGSTON COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, (Continued):

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

GOVERNMENTAL FUNDS

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental fund:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

OTHER NON-MAJOR FUNDS

The special *revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service, library, athletic activities, and the Woloshen account in the special revenue funds.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

The *debt service fund* accounts for the receipt of debt proceeds and that acquisition of fixed assets or construction of major capital projects.

KINGSTON COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION:

Accrual Method:

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method:

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue:

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006 the foundation allowance was based on the pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes that may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October 2005 - August 2006. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

KINGSTON COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

OTHER ACCOUNTING POLICIES

Cash and Cash equivalents

Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value and determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the districts intend to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Property Taxes.

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual date is February 15, after which time the bill becomes delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2006, the District levied the following amounts per \$1,000 of assessed valuation:

<u>FUND</u>	<u>MILLS</u>
General Fund – Non Homestead	17.0432
Debt Service Funds	6.5000

KINGSTON COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories in the special revenue funds consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion on interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Capital Assets.

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 – 15 years

The District's capitalization policy is to capitalize individual amounts exceeding \$3,000. Group purchases are evaluated on a case-by-case basis.

Compensated Absences.

The District's policies generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirement.

Long-term obligations.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

KINGSTON COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

Use of Estimates.

The process of preparing general purpose financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY:

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with the State law the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the two preceding years. The Board of Education requires that the budget be submitted in summary form. In addition, more detailed line item budgets are included for administrative control. The level of control for the detailed budgets is at the department head/function level.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of a budget resolution.
4. Formal budgetary integration is employed as a management control device during the year for the general, special revenue, and debt service funds. These budgets are adopted on a basis consistent with generally accepted accounting principals (GAAP).
5. Appropriations lapse at the end of each fiscal year.
6. The Board of Education may authorize supplemental appropriations during the year. The Board of Education authorized budget amendments during the fiscal year at their regular scheduled board meetings.

KINGSTON COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2006

NOTE 3 - CASH AND EQUIVALENTS - CREDIT RISK:

Cash and cash equivalents are held separately in the name of the district by each of the district's funds.

As of June 30, 2006, the District had the following investments.

Investment Type	Fair value	Weighted Average Maturity (Years)	Standard & Poor's Rating	%
MILAF External pool - MICMS	99,893	0.0027	AAAm	8.08%
MILAF External pool - MIMAX	826,437	0.0027	AAAm	66.84%
MILAF + Term A	144,094	0.0164	A1+	11.65%
Guaranteed Investment Contract (GIC)	166,086	7.0000	A1+	13.43%
Total fair value	<u>\$ 1,236,510</u>			100.0%
Portfolio weighted average maturity		<u>0.9440</u>		

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. At June 30, 2006, the carrying amount of the District's deposits was \$146,126 and the bank balance was \$143,708. Of the bank balance, \$100,000 was covered by federal deposit insurance while the remaining bank balance of \$43,708 was uninsured and uncollateralized. The District places its deposits with high quality financial institutions. Although such deposits exceed federally insured limits, they are, in the opinion of the District, subject to minimal risk.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

KINGSTON COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2006

NOTE 3 - CASH AND EQUIVALENTS - CREDIT RISK (Continued):

The District's Guaranteed Investment Contract is collateralized and invested for the purpose of paying off the Note Payable Disclosed in Note 8.

The Investment Agreement, dated as of November 1, 2002, by and among Bank of New York Trust Company, as the Depository on behalf of both the participating Michigan School District and the Michigan Municipal Bond Authority, and Wachovia Bank, as Provider.

The net proceeds from the sale of the School Improvement Bonds were loaned by the Authority to Michigan School Districts. Such Loans are to be repaid with annual set-a-side installments deposited with the Depository for investment under the Investment Agreement. Set-a-side installments are deposited under the Investment Agreement versus Permitted Investments (collateral securities) equaling at least 103% of the deposited amount and such Permitted Investments are held by the Depository in a fiduciary capacity.

The Guaranteed Rate under this Investment Agreement (commonly referred to as guaranteed investment contract-GIC or collateralized investment agreement-CIA) is 2.60% (simple interest actual days elapsed over a 365-day year).

The Guarantor is Wachovia Bank, as guarantor of the Provider's obligations under this Investment Agreement.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously reported in Note 3:

Deposits - including fiduciary funds of \$57,788	\$ 146,126
Investments	<u>1,236,510</u>
	<u><u>\$ 1,382,636</u></u>

The above amounts are reported in the financial statements as follows:

Cash - District wide	\$ 88,338
Fiduciary Funds	57,788
Investments - District wide	<u>1,236,510</u>
	<u><u>\$ 1,382,636</u></u>

KINGSTON COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2006

NOTE 4 –DUE FROM OTHER GOVERNMENTAL UNITS:

Receivables at June 30, 2006 consist of the following:

State Aid	\$813,354
Title I	<u>29,341</u>
Total	<u>\$842,695</u>

Amounts due from other governmental units include amounts due from federal, state and local sources for various projects and programs.

NOTE 5 –CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	<u>BALANCE</u> <u>JULY 1, 2005</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2006</u>
Capital assets:				
Land	\$ 28,200			\$ 28,200
Building and Improvements	11,104,786			11,104,786
Furniture and equipment	<u>1,621,700</u>	<u>\$ 38,032</u>	<u>-</u>	<u>1,659,732</u>
Total Capital Assets	12,754,686	38,032	None	12,792,718
Accumulated depreciation:				
Building and Improvements	(3,549,089)	\$(239,902)		(3,788,991)
Furniture and equipment	<u>(1,107,706)</u>	<u>(184,425)</u>	<u>-</u>	<u>(1,292,131)</u>
Total Accumulated depreciation:	<u>(4,656,795)</u>	<u>(424,327)</u>	<u>None</u>	<u>(5,081,122)</u>
Net capital assets	<u>\$ 8,097,891</u>	<u>\$(386,295)</u>	<u>None</u>	<u>\$ 7,711,596</u>

Depreciation for the fiscal year ended June 30, 2006 amounted to \$424,327.

NOTE 6- DEFERRED REVENUE:

Deferred revenue reported in the governmental funds at year - end consisted of the following:

	General
	Fund
MI School Readiness	<u>\$16,818</u>
Total	<u>\$16,818</u>

KINGSTON COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2006

NOTE 7- LONG TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligations currently outstanding are as follows:

2005 general obligation refunding bonds due in annual installments of \$25,000 to \$170,000 through May 1, 2018 with interest at 3.0% to 3.9%.	\$1,795,000
2002 general obligation refunding bonds due in annual installments of \$40,000 to \$75,000 through May 1, 2018 with interest at 4.00% to 5.00%	615,000
2002E general obligation bonds due in annual installments of \$50,000 to \$275,000 through May 1, 2028 with interest at 3.00% to 4.85%	3,765,000
Qualified zone academy bonds – 15 annual payments of \$55,362 from November 1, 2003 through 2017 will be paid into a bank escrow account with the entire principal amount due November 1, 2017.	<u>944,638</u>
Total general obligation bonds	7,119,638
\$51,590 September 5, 2002, bus contract due in equal annual principal installments of \$10,318 through September 5, 2006. Interest at 4.54%	10,318
Obligation under contract for compensated absences	<u>101,416</u>
Total general long-term debt	<u><u>\$7,231,372</u></u>

During the year ended June 30, 2005 the District refinanced the 1996 bonds. New general obligation bonds were issued at a premium of \$27,625 after paying issuance costs of \$59,664, the net proceeds were \$1,787,961. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the term bonds are paid off on May 1, 2018. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the District's government-wide financial statements.

As a result of the advance refunding, the District reduced its total debt service requirements which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$200,923.

KINGSTON COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2006

NOTE 7- LONG TERM DEBT (Continued)

The annual requirements to amortize the long-term obligations as of June 30, 2006 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 255,318	\$ 260,759	\$ 516,077
2008	256,000	252,139	517,139
2009	275,000	243,163	518,163
2010	285,000	233,769	518,769
2011	300,000	223,752	523,752
2012 - 2016	1,690,000	928,976	2,618,976
2017 - 2021	2,314,638	577,300	2,891,938
2022 - 2026	1,200,000	308,452	1,508,452
2027 - 2031	<u>545,000</u>	<u>39,770</u>	<u>883,682</u>
	<u>\$7,129,956</u>	<u>\$3,068,768</u>	10,198,034
Obligation under contract for compensated absences			<u>101,416</u>
Total long-term debt and interest			<u>\$10,299,450</u>

An amount of \$324,730 is available in the debt service fund to service the general obligation debt. Interest expense for all funds for the year ended June 30, 2006 was \$274,173.

The following is a summary of the changes in liabilities reported in the general long- term debt account group:

	<u>Balance June 30,2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30,2006</u>	<u>Due within one year</u>
General					
Obligation bond	\$7,339,638	-	\$220,000	\$7,119,638	\$245,000
Compensated					
Absences	85,372	\$16,044		101,416	10,142
Bus Contracts	<u>31,830</u>	<u>-</u>	<u>21,512</u>	<u>10,318</u>	<u>10,318</u>
Totals	<u>\$7,456,840</u>	<u>\$16,044</u>	<u>\$241,512</u>	<u>\$7,231,372</u>	<u>\$265,460</u>

KINGSTON COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2006

NOTE 8 –EMPLOYEE RETIREMENT SYSTEM- DEFINED BENEFIT PLAN

Plan Description – The District contributes to the statewide Michigan Public School Employees' Retirement System (MPSERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPSERS provides retirement benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan, 48909-7671 or by calling (800) 381-5111.

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; and 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2005 was 14.87% through September 2005 and 16.34% for October 1, 2005 through June 30, 2006. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2006, 2005, and 2004 were \$504,661, \$461,151 and \$432,535, respectively, and were equal to the required contribution for the year.

The District is not responsible for the payment of retirement benefits, which is the responsibility of the State of Michigan.

Other post-employment benefits – Also within the MPSERS system, retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The MPSERS has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premium is paid by the MPSERS with the balance deducted from the monthly pension.

KINGSTON COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2006

NOTE 9 - RISK MANAGEMENT:

General Liability

The District participates in the SET-SEG Property/Casualty Pool, Inc. for the coverage of significant losses due to its general liability. The participation in the pool constitutes transfer of the risk for significant losses with a limit of \$2million per occurrence for real and personal property losses and a limit of \$2million in the aggregate for personal injury. For automotive liability, the pool constitutes transfer of the risk with a limit of \$2million for bodily injury and property damage combined. For excess liability, there is a limit of \$2millions for each occurrence. The District is required to pay an annual premium to the SET-SEG Property/Casualty Pool, Inc. for the liability coverage. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Worker's Compensation

The District is insured through SET/SEG Workers Compensation Disability Compensation for losses related to worker's compensation claims.

Employee Health Care

The District uses MESSA-PAK for health insurance coverage for its instructional employees and their dependents. The School District uses SET/SEG for health insurance coverage for its support staff, administration, and their dependents.

NOTE 10 – TRANSFERS:

The transfers between funds for the fiscal year ended June 30, 2006 were as follows:

	<u>TO</u>	<u>FROM</u>
General Fund		\$150,285
Athletic Fund	\$ 94,923	
QZAB Bond Fund	<u>55,362</u>	<u>-</u>
	<u>\$150,285</u>	<u>\$150,285</u>

REQUIRED SUPPLEMENTAL INFORMATION

KINGSTON COMMUNITY SCHOOLS
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2006

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES				
Local sources	\$ 388,460	\$ 462,212	\$ 498,347	\$ 36,135
State sources	4,605,025	4,472,653	4,471,276	(1,377)
Federal sources	206,898	217,263	219,072	1,809
TOTAL REVENUES	5,200,383	5,152,128	5,188,695	36,567
EXPENDITURES				
Instruction	3,235,696	3,306,124	3,320,645	(14,521)
Supporting services	1,891,309	1,839,882	1,810,278	29,604
Community services	50,825	81,529	81,143	386
Debt service	21,512	21,512	21,512	-
TOTAL EXPENDITURES	5,199,342	5,249,047	5,233,578	15,469
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,041	(96,919)	(44,883)	52,036
OTHER FINANCING SOURCES (USES):				
Transfer to other funds	(160,862)	(161,062)	(150,285)	10,777
Payments from ISD	-	3,175	3,226	51
TOTAL OTHER FINANCING SOURCES (USES)	(160,862)	(157,887)	(147,059)	10,828
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	(159,821)	(254,806)	(191,942)	62,864
FUND BALANCE - BEGINNING OF YEAR	903,719	879,094	942,649	63,555
FUND BALANCE - END OF YEAR	\$ 743,898	\$ 624,288	\$ 750,707	\$ 126,419

ADDITIONAL INFORMATION

KINGSTON COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
June 30, 2006

	<u>GOVERNMENTAL FUND TYPES</u>		<u>TOTAL</u>
	<u>SPECIAL REVENUE</u>	<u>DEBT RETIREMENT</u>	<u>2006</u>
<u>ASSETS</u>			
Cash and equivalents	\$ 14,030	\$ 1,144	\$ 15,174
Investments	174,608	323,586	498,194
Due from other funds	2,225	-	2,225
Inventory	-	-	-
<u>TOTAL ASSETS</u>	<u>\$ 190,863</u>	<u>\$ 324,730</u>	<u>\$ 515,593</u>
<u>LIABILITIES AND FUND BALANCE</u>			
Accounts payable			-
Due to other funds		-	-
<u>TOTAL LIABILITIES</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>FUND BALANCE</u>			
Reserved		\$ 324,730	\$ 324,730
Unreserved	\$ 190,863	-	190,863
<u>TOTAL FUND BALANCE</u>	<u>190,863</u>	<u>324,730</u>	<u>515,593</u>
<u>TOTAL LIABILITIES AND FUND BALANCE</u>	<u>\$ 190,863</u>	<u>\$ 324,730</u>	<u>\$ 515,593</u>

KINGSTON COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN NONMAJOR FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2006

	GOVERNMENTAL FUND TYPES		TOTAL
	SPECIAL REVENUE	DEBT RETIREMENT	2006
REVENUES			
Local sources	\$ 148,674	\$ 492,659	\$ 641,333
State sources	15,587	-	15,587
Federal sources	136,778		136,778
TOTAL REVENUES	301,039	492,659	793,698
EXPENDITURES			
Salaries and wages	166,065		166,065
Employee benefits	49,159		49,159
Dues and Fees	5,893		5,893
Food and supplies	149,496		149,496
Purchased services	30,494		30,494
Insurance	2,160		2,160
Workshop & conference	2,407		2,407
Debt Service:			
Retirement of bonds		169,863	169,863
Interest on bonded debt		330,179	330,179
Fees		1,166	1,166
Capital outlay	5,669		5,669
Miscellaneous	1,865		1,865
TOTAL EXPENDITURES	413,208	501,208	914,416
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(112,169)	(8,549)	(120,718)
OTHER FINANCING SOURCES (USES)			
Operating transfers	94,923	55,362	150,285
TOTAL OTHER FINANCING SOURCES (USES)	94,923	55,362	150,285
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	(17,246)	46,813	29,567
FUND BALANCE AT BEGINNING OF YEAR	208,109	277,917	486,026
FUND BALANCE AT END OF YEAR	\$ 190,863	\$ 324,730	\$ 515,593

KINGSTON COMMUNITY SCHOOLS
BALANCE SHEETS
GENERAL FUND
June 30, 2006

	<u>2006</u>
<u>ASSETS</u>	
Cash and equivalents	\$ 73,164
Investments	738,316
Due from other governmental units	<u>842,695</u>
TOTAL ASSETS	<u><u>\$ 1,654,175</u></u>
 <u>LIABILITIES AND FUND BALANCE</u>	
Accounts payable	\$ 16,224
Salaries payable	300,815
Accrued employee benefits	105,805
Accrued interest	13,806
Deferred revenue	16,818
Long term debt	450,000
Due to other funds	<u>-</u>
TOTAL LIABILITIES	<u>903,468</u>
 <u>FUND BALANCE</u>	
Fund balances:	
Unreserved:	<u>750,707</u>
Total unreserved	<u>750,707</u>
TOTAL FUND BALANCE	<u>750,707</u>
 TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 1,654,175</u></u>

KINGSTON COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
REVENUES:			
LOCAL SOURCES:			
Property taxes	\$ 254,009	\$ 254,014	\$ 5
Interest earnings	25,141	25,158	17
TISD Special education	15,867	15,867	-
Tuition	10,400	10,450	50
Use of property	1,825	1,850	25
Sale of fixed assets	-	-	-
Community services-tuition	75,000	76,413	1,413
Community services-donations	1,100	1,100	-
Miscellaneous	78,870	113,495	34,625
TOTAL REVENUE FROM LOCAL SOURCES	<u>462,212</u>	<u>498,347</u>	<u>36,135</u>
STATE SOURCES:			
State school aid	4,102,711	4,102,697	(14)
Special education	107,330	107,331	1
At risk	140,244	140,219	(25)
School readiness	110,818	109,529	(1,289)
Career prep	-	-	-
Miscellaneous	11,550	11,500	(50)
TOTAL REVENUE FROM STATE SOURCES	<u>4,472,653</u>	<u>4,471,276</u>	<u>(1,377)</u>
FEDERAL SOURCES:			
Title I	154,922	154,815	(107)
Tech prep	3,744	3,744	-
Title II, Part A	41,837	41,837	-
Title II, Part D	2,436	2,436	-
Drug- Free grant	2,500	2,500	-
CIMS Grant	3,760	3,760	-
Homeland Security Grant	6,618	8,534	1,916
Title V	1,446	1,446	-
TOTAL REVENUE FROM FEDERAL SOURCES	<u>217,263</u>	<u>219,072</u>	<u>1,809</u>
TOTAL REVENUES	<u>5,152,128</u>	<u>5,188,695</u>	<u>36,567</u>
OTHER FINANCING SOURCES:			
Payments from ISD	<u>3,175</u>	<u>3,226</u>	<u>51</u>
TOTAL OTHER FINANCING SOURCES	<u>3,175</u>	<u>3,226</u>	<u>51</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>\$ 5,155,303</u>	<u>\$ 5,191,921</u>	<u>\$ 36,618</u>

KINGSTON COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION:			
BASIC PROGRAMS:			
ELEMENTARY			
Salaries	\$ 951,330	\$ 951,071	\$ 259
Employee benefits	459,708	452,086	7,622
Purchased services	8,029	7,899	130
Teaching supplies	23,875	45,078	(21,203)
Capital outlay	-	-	-
Miscellaneous	123	123	-
Total Elementary	<u>1,443,065</u>	<u>1,456,257</u>	<u>(13,192)</u>
HIGH SCHOOL:			
Salaries	729,549	729,543	6
Employee benefits	349,205	339,730	9,475
Teaching supplies	12,526	33,935	(21,409)
services	14,919	14,606	313
Capital outlay	2,179	2,179	-
Miscellaneous	4,822	4,821	1
Total High School	<u>1,113,200</u>	<u>1,124,814</u>	<u>(11,614)</u>
PRE-SCHOOL:			
Salaries	53,289	53,289	-
Employee benefits	27,235	27,228	7
Purchased services	2,786	2,212	574
Teaching supplies	15,324	14,616	708
Capital outlay	247	247	-
Miscellaneous	779	779	-
Total Pre-School	<u>99,660</u>	<u>98,371</u>	<u>1,289</u>
TOTAL BASIC PROGRAMS	<u>2,655,925</u>	<u>2,679,442</u>	<u>(23,517)</u>

KINGSTON COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION, (Continued):			
ADDED NEEDS:			
TITLE I			
Salaries	\$ 119,824	\$ 119,818	\$ 6
Employee benefits	33,428	33,326	102
Purchased services	350	350	-
Teaching supplies	1,142	1,140	2
Capital outlay	180	180	-
Miscellaneous	-	-	-
Total Title I	<u>154,924</u>	<u>154,814</u>	<u>110</u>
AT RISK EDUCATION			
Salaries	77,746	77,745	1
Employee benefits	38,410	39,216	(806)
Purchased services	22,164	21,055	1,109
Supplies	-	-	-
Capital outlay	-	-	-
Miscellaneous	2,230	2,230	-
Total At Risk Education	<u>140,550</u>	<u>140,246</u>	<u>304</u>
SPECIAL EDUCATION:			
Salaries	237,427	237,412	15
Employee benefits	109,881	101,344	8,537
Miscellaneous	70	70	-
Teaching supplies	6,890	6,887	3
Purchased services	457	430	27
Total Special Education	<u>354,725</u>	<u>346,143</u>	<u>8,582</u>
TOTAL ADDED NEEDS:	<u>650,199</u>	<u>641,203</u>	<u>8,996</u>
TOTAL INSTRUCTION	<u>3,306,124</u>	<u>3,320,645</u>	<u>(14,521)</u>

KINGSTON COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES			
Guidance			
Salaries	-	-	-
Employee Benefits	-	-	-
Purchased services	\$ 16,960	\$ 17,511	\$ (551)
Teaching supplies	57	56	1
Capital outlay	-	-	-
Miscellaneous	-	-	-
	<u>17,017</u>	<u>17,567</u>	<u>(550)</u>
Total Guidance			
Crossing Guard			
Purchased services	<u>1,543</u>	<u>1,543</u>	<u>-</u>
Total crossing guard			
Library			
Salaries	26,001	26,001	-
Employee benefits	7,497	7,202	295
Purchased Services	2,225	2,293	(68)
Supplies	3,514	3,517	(3)
Capital outlay	118	117	1
Miscellaneous	<u>3,193</u>	<u>3,193</u>	<u>-</u>
Total library	<u>42,548</u>	<u>42,323</u>	<u>225</u>
Improvement Of Instruction			
Purchased services	<u>5,759</u>	<u>5,206</u>	<u>553</u>
Total improvement of instruction	<u>5,759</u>	<u>5,206</u>	<u>553</u>
Tech Prep			
Purchased services	<u>2,362</u>	<u>2,361</u>	<u>1</u>
Total tech prep	<u>2,362</u>	<u>2,361</u>	<u>1</u>

KINGSTON COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES: (CONTINUED)			
General administration			
Board of Education	\$ 2,970	\$ 3,030	\$ (60)
Election	756	754	2
Professional fees	11,550	11,540	10
Superintendent salary	104,409	104,409	-
Other salaries	25,980	25,980	-
Purchased services	18,697	18,201	496
Supplies	1,275	1,039	236
Employee benefits	86,759	86,746	13
Capital outlay	-	-	-
Miscellaneous	6,320	6,339	(19)
Total general administration	<u>258,716</u>	<u>258,038</u>	<u>678</u>
School administration			
Salaries	247,628	247,625	3
Employee benefits	143,303	141,495	1,808
Purchased services	23,537	22,690	847
Office supplies	1,870	1,808	62
Capital outlay	-	-	-
Miscellaneous	835	794	41
Other school administration	3,061	3,061	-
Total school administration	<u>420,234</u>	<u>417,473</u>	<u>2,761</u>
Fiscal Service			
Salaries	37,655	37,655	-
Employee benefits	24,751	24,598	153
Purchased services	1,915	1,722	193
Supplies	256	256	-
Capital outlay	-	-	-
Miscellaneous	-	-	-
Total fiscal service	<u>64,577</u>	<u>64,231</u>	<u>346</u>

KINGSTON COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES: (CONTINUED)			
Other Business Service			
Taxes abated	\$ 5,500	\$ 662	\$ 4,838
Building and property insurance	12,812	12,812	-
Interest expense	16,632	16,631	1
Total other business service	<u>34,944</u>	<u>30,105</u>	<u>4,839</u>
Technology			
Salaries	28,701	28,698	3
Employee benefits	7,601	7,450	151
Purchased services	31,240	30,260	980
Supplies	6,601	6,099	502
Capital outlay	4,110	4,110	-
Miscellaneous	250	250	-
Total technology	<u>78,503</u>	<u>76,867</u>	<u>1,636</u>
Operation and maintenance of plant			
Salaries	219,100	219,030	70
Employee benefits	140,347	139,445	902
Purchased services	44,688	43,288	1,400
Miscellaneous	1,343	1,279	64
Electricity	100,300	97,113	3,187
Repairs and maintenance	22,100	18,720	3,380
Custodial supplies	41,120	37,009	4,111
Heat	90,550	87,795	2,755
Sewer	10,888	10,886	2
Security	6,618	8,534	(1,916)
Capital outlay	8,962	8,925	37
Total operation and maintenance of plant	<u>686,016</u>	<u>672,024</u>	<u>13,992</u>
Pupil transportation			
Salaries	98,247	98,243	4
Employee benefits	25,843	24,265	1,578
Purchased services	42,805	40,616	2,189
Supplies	58,752	57,400	1,352
Capital outlay	-	-	-
Miscellaneous	2,016	2,016	-
Total pupil transportation	<u>227,663</u>	<u>222,540</u>	<u>5,123</u>
TOTAL SUPPORTING SERVICES	<u>1,839,882</u>	<u>1,810,278</u>	<u>29,604</u>

KINGSTON COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
COMMUNITY SERVICES:			
Drivers Education			
Salaries	\$ 6,930	\$ 6,930	-
Benefits	531	530	\$ 1
Purchased service	272	271	1
Supplies	350	168	182
Miscellaneous	-	-	-
Total Drivers Education	<u>8,083</u>	<u>7,899</u>	<u>184</u>
Cardinal Center			
Salaries	56,532	56,530	2
Supplies	2,450	2,262	188
Workshop & Conferences	-	-	-
Purchased Services	-	-	-
Dues and fees	816	816	-
Employee benefits	13,198	13,186	12
Total Cardinal Center	<u>72,996</u>	<u>72,794</u>	<u>202</u>
CIMS Community Activity	<u>450</u>	<u>450</u>	<u>-</u>
TOTAL COMMUNITY SERVICES	<u>81,529</u>	<u>81,143</u>	<u>386</u>
DEBT SERVICE:			
Principal retirement			
Bus contracts	<u>21,512</u>	<u>21,512</u>	<u>-</u>
Total principal retirement	<u>21,512</u>	<u>21,512</u>	<u>-</u>
TOTAL DEBT SERVICE	<u>21,512</u>	<u>21,512</u>	<u>-</u>
TOTAL EXPENDITURES	5,249,047	5,233,578	15,469
OTHER FINANCING USES			
Transfer to Other Funds	<u>161,062</u>	<u>150,285</u>	<u>10,777</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 5,410,109</u>	<u>\$ 5,383,863</u>	<u>\$ 26,246</u>

KINGSTON COMMUNITY SCHOOLS
ALL SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
June 30, 2006

	<u>FOOD SERVICES</u>	<u>PUBLIC LIBRARY FUND</u>	<u>ATHLETIC ACTIVITIES</u>	<u>WOLOSHEN</u>	<u>TOTAL 2006</u>
<u>ASSETS</u>					
Cash and equivalents	\$ 5,238	\$ 8,741	\$ 51	-	\$ 14,030
Investments	30,410	-	-	\$ 144,198	174,608
Due from other governmental units	2,225	-	-	-	2,225
Inventory	-	-	-	-	-
TOTAL ASSETS	<u>\$ 37,873</u>	<u>\$ 8,741</u>	<u>\$ 51</u>	<u>\$ 144,198</u>	<u>\$ 190,863</u>
 <u>LIABILITIES & FUND EQUITY</u>					
LIABILITIES:					
Deferred revenue	-	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 FUND BALANCE:					
Fund Balance	\$ 37,873	\$ 8,741	\$ 51	\$ 144,198	\$ 190,863
TOTAL FUND BALANCE	<u>37,873</u>	<u>8,741</u>	<u>51</u>	<u>144,198</u>	<u>190,863</u>
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 37,873</u>	<u>\$ 8,741</u>	<u>\$ 51</u>	<u>\$ 144,198</u>	<u>\$ 190,863</u>

KINGSTON COMMUNITY SCHOOLS
ALL SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2006

	<u>FOOD SERVICES</u>	<u>PUBLIC LIBRARY FUND</u>	<u>ATHLETIC ACTIVITIES</u>	<u>WOLOSHEN</u>	<u>TOTAL 2006</u>
REVENUES:					
Local sources	\$ 82,086	\$ 25,307	\$ 35,676	\$ 5,605	\$ 148,674
State sources	12,428	3,159			15,587
Federal sources	136,778	-			136,778
TOTAL REVENUES	<u>231,292</u>	<u>28,466</u>	<u>35,676</u>	<u>5,605</u>	<u>301,039</u>
EXPENDITURES:					
Salaries and wages	87,230	7,855	70,980		166,065
Employee benefits	30,081	1,871	17,207		49,159
Purchased services	5,856	1,205	23,310	123	30,494
Food and supplies	118,090	11,143	17,933	2,330	149,496
Insurance	-	-	2,160		2,160
Dues and Fees	1,605	1,557	2,731		5,893
Workshop & conferences	399	508	1,500		2,407
Capital outlay	-	617	5,052		5,669
Miscellaneous	690	466	709		1,865
TOTAL EXPENDITURES	<u>243,951</u>	<u>25,222</u>	<u>141,582</u>	<u>2,453</u>	<u>413,208</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(12,659)</u>	<u>3,244</u>	<u>(105,906)</u>	<u>3,152</u>	<u>(112,169)</u>
OTHER FINANCING SOURCES (USES):					
Fund transfers in			94,923		94,923
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	<u>(12,659)</u>	<u>3,244</u>	<u>(10,983)</u>	<u>3,152</u>	<u>(17,246)</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>50,532</u>	<u>5,497</u>	<u>11,034</u>	<u>141,046</u>	<u>208,109</u>
FUND BALANCE AT END OF YEAR	<u>\$ 37,873</u>	<u>\$ 8,741</u>	<u>\$ 51</u>	<u>\$ 144,198</u>	<u>\$ 190,863</u>

KINGSTON COMMUNITY SCHOOLS
COMBINING DEBT RETIREMENT FUNDS
BALANCE SHEET
June 30, 2006

	<u>1996 DEBT</u>	<u>2002 R DEBT</u>	<u>2002 E DEBT</u>	<u>QZAB DEBT</u>	<u>2005 DEBT</u>	<u>TOTAL</u>
<u>ASSETS</u>						
Cash and equivalents	\$ -	\$ 254	\$ 518		\$ 372	\$ 1,144
Investments	-	16,816	91,605	\$ 166,086	49,079	323,586
Due from other funds	-	-	-	-	-	-
<u>TOTAL ASSETS</u>	<u>\$ -</u>	<u>\$ 17,070</u>	<u>\$ 92,123</u>	<u>\$ 166,086</u>	<u>\$ 49,451</u>	<u>\$ 324,730</u>
<u>LIABILITIES & FUND BALANCE</u>						
LIABILITIES:						
Due to other funds	\$ -	-	-	-	-	\$ -
FUND BALANCE:						
Fund balance	-	\$ 17,070	\$ 92,123	\$ 166,086	\$ 49,451	324,730
<u>TOTAL LIABILITIES & FUND BALANCE</u>	<u>\$ -</u>	<u>\$ 17,070</u>	<u>\$ 92,123</u>	<u>\$ 166,086</u>	<u>\$ 49,451</u>	<u>\$ 324,730</u>

KINGSTON COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2006

	<u>1996 DEBT</u>	<u>2002 E DEBT</u>	<u>2002 R DEBT</u>	<u>QZAB DEBT</u>	<u>2005 DEBT</u>	<u>TOTAL</u>
REVENUES:						
Local Sources:						
Property Taxes	\$ 57,918	\$ 231,373	\$ 93,448		\$ 99,329	\$ 482,068
Interest Income	538	2,549	412	-	952	4,451
Miscellaneous					6,140	6,140
State Sources		-	-	-		-
TOTAL REVENUES	<u>58,456</u>	<u>233,922</u>	<u>93,860</u>	<u>-</u>	<u>106,421</u>	<u>492,659</u>
EXPENDITURES:						
Retirement of bonds	14,863	65,000	65,000		25,000	169,863
Interest on bonded debt	53,518	168,963	30,193		77,505	330,179
Fees	325	250	350		241	1,166
TOTAL EXPENDITURES	<u>68,706</u>	<u>234,213</u>	<u>95,543</u>	<u>-</u>	<u>102,746</u>	<u>501,208</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(10,250)</u>	<u>(291)</u>	<u>(1,683)</u>	<u>-</u>	<u>3,675</u>	<u>(8,549)</u>
OTHER FINANCING SOURCES (USES):						
Transfer from other funds				\$ 55,362	\$ 45,776	101,138
Transfer to other funds	(45,776)				-	(45,776)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(45,776)</u>	<u>-</u>	<u>-</u>	<u>55,362</u>	<u>45,776</u>	<u>55,362</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	<u>(56,026)</u>	<u>(291)</u>	<u>(1,683)</u>	<u>55,362</u>	<u>49,451</u>	<u>46,813</u>
FUND BALANCES:						
Beginning of Year	<u>56,026</u>	<u>92,414</u>	<u>18,753</u>	<u>110,724</u>	<u>-</u>	<u>277,917</u>
End of Year	<u>\$ -</u>	<u>\$ 92,123</u>	<u>\$ 17,070</u>	<u>\$ 166,086</u>	<u>\$ 49,451</u>	<u>\$ 324,730</u>

KINGSTON COMMUNITY SCHOOLS
AGENCY FUND
SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BALANCE AT 6/30/2005</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>BALANCE AT 6/30/2006</u>
GENERAL FUND ACTIVITIES:				
Band- resale HS	\$ 983	\$ 3,574	\$ 4,557	-
Flower	550		42	\$ 508
Yearbook	511	8,225	8,736	-
Batting cage	704		704	-
In & Out	248	14,429	14,329	348
HS summer school	916	100	1,016	-
Shop- resale	3,089	377	3,466	-
Interest	682	37	719	-
Pop fund	14,649	12,797	19,613	7,833
	<u>14,649</u>	<u>12,797</u>	<u>19,613</u>	<u>7,833</u>
TOTAL GENERAL FUND ACTIVITIES	<u>\$ 22,332</u>	<u>\$ 39,539</u>	<u>\$ 53,182</u>	<u>\$ 8,689</u>
STUDENT ACTIVITIES:				
ELEMENTARY SCHOOLS:				
Candy Fund	8,438	25,471	28,576	5,333
Book Fair	3,657	4,681	6,674	1,664
Student Council	2,080		46	2,034
Carol Wright Memorial	40	1,510	1,550	-
Accelerated Reader	33	703	406	330
Elem. Store	909	627	352	1,184
Winter Warmup	356	1,304	969	691
Teacher of The Year	-	1,000	142	858
	<u>-</u>	<u>1,000</u>	<u>142</u>	<u>858</u>
TOTAL ELEMENTARY SCHOOLS	<u>15,513</u>	<u>35,296</u>	<u>38,715</u>	<u>12,094</u>
MIDDLE/HIGH SCHOOLS:				
Kingston Alumni Reunion	38	200	100	138
Class of 2005	1,175	-	1,175	-
Class of 2006	13,302	10,179	23,483	(2)
Class of 2007	4,419	8,335	6,614	6,140
Class of 2008	1,564	1,136	100	2,600
Class of 2009	1,540	5,298	1,204	5,634
Class of 2009 Candy	148	10,980	11,128	-
Class of 2010	1,013	2,200	1,016	2,197
Class of 2011	-	354	317	37
Cheerleading	52	5,725	6,479	(702)
Student Council	1,531	2,974	4,254	251

KINGSTON COMMUNITY SCHOOLS
AGENCY FUND
SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BALANCE AT</u> <u>6/30/2005</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>BALANCE AT</u> <u>6/30/2006</u>
Drama Club	\$ 169	-	-	\$ 169
Art Club	252	\$ 1,194	\$ 1,066	380
Equestrian Club	24	86	-	110
Helping Hands	413		-	413
Dance Team	145		-	145
Football Club	1,475	11,320	10,851	1,944
Track Club	2,200	7,512	9,173	539
Baseball Club	(117)	106	14	(25)
Boys Basketball Club	(631)	11,672	11,915	(874)
Environmental Club	(125)	275	-	150
Girls Basketball Club	4,209	8,070	9,160	3,119
Special Education	872	-	69	803
Entrepreneurship Store	238	-	-	238
SADD	1,688	2,275	2,927	1,036
Student Scholarships	6,515	8,200	5,200	9,515
National Honor Society	1,847	664	1,007	1,504
Life Skills Class	(1)	1		-
TAPA	144	-	8	136
HS Store Fund	817	36		853
Band Resale		1,713	23	1,690
Yearbook		2,852		2,852
Batting Cage		704		704
HS Summer School		287	167	120
HS Shop Resale		3,377		3,377
Student Interest	847	136	480	503
TOTAL MIDDLE/HIGH SCHOOLS	<u>45,763</u>	<u>107,861</u>	<u>107,930</u>	<u>45,694</u>
TOTAL AGENCY FUND	<u>\$ 61,276</u>	<u>\$ 143,157</u>	<u>\$ 146,645</u>	<u>\$ 57,788</u>

KINGSTON COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT -2002 ISSUE
June 30, 2006

PRINCIPAL DUE MAY 1	RATE	INTEREST DUE		DEBT SERVICE REQUIREMENT FOR FISCAL YEAR	
		MAY 1	NOVEMBER 1	JUNE 30	AMOUNT
			\$ 13,796		\$ 13,796
\$ 60,000	4.00	\$ 13,796	12,597	2007	86,393
55,000	4.00	12,597	11,496	2008	79,093
50,000	4.10	11,496	10,471	2009	71,967
40,000	4.20	10,471	9,631	2010	60,102
45,000	4.30	9,631	8,664	2011	63,295
50,000	4.40	8,664	7,564	2012	66,228
50,000	4.55	7,564	6,426	2013	63,990
50,000	4.55	6,426	5,264	2014	61,690
45,000	4.75	5,263	4,195	2015	54,458
55,000	4.85	4,195	2,862	2016	62,057
55,000	4.95	2,862	1,500	2017	59,362
60,000	5.00	1,500		2018	61,500
<u>\$ 615,000</u>		<u>\$ 94,465</u>	<u>\$ 94,466</u>		<u>\$ 803,931</u>

The total amount of original issue was \$900,000.

KINGSTON COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT - 2002E ISSUE
June 30, 2006

PRINCIPAL DUE MAY 1	RATE	INTEREST DUE		DEBT SERVICE REQUIREMENT FOR FISCAL YEAR	
		MAY 1	NOVEMBER 1	JUNE 30	AMOUNT
			\$ 83,508		\$ 83,508
\$ 80,000	3.25	\$ 83,508	82,206	2007	245,714
95,000	3.50	82,206	80,544	2008	257,750
95,000	3.63	80,544	78,822	2009	254,366
100,000	3.63	78,822	77,010	2010	255,832
105,000	3.63	77,010	75,106	2011	257,116
110,000	3.80	75,106	73,016	2012	258,122
120,000	4.00	73,016	70,616	2013	263,632
125,000	4.00	70,616	68,116	2014	263,732
135,000	4.10	68,116	65,349	2015	268,465
140,000	4.40	65,349	62,269	2016	267,618
150,000	4.40	62,269	58,967	2017	271,236
165,000	4.40	58,967	55,339	2018	279,306
190,000	4.40	55,339	51,159	2019	296,498
200,000	4.55	51,159	46,609	2020	297,768
210,000	4.65	46,609	41,726	2021	298,335
220,000	4.70	41,726	36,556	2022	298,282
230,000	4.75	36,556	31,094	2023	297,650
240,000	4.75	31,094	25,394	2024	296,488
250,000	4.75	25,394	19,456	2025	294,850
260,000	4.80	19,456	13,216	2026	292,672
270,000	4.85	13,216	6,669	2027	289,885
275,000	4.85	6,669		2028	281,669
<u>\$ 3,765,000</u>		<u>\$ 1,202,747</u>	<u>\$ 1,202,747</u>		<u>\$ 6,170,494</u>

Bonds in the amount of \$3,940,000 were issued for the purpose of erecting, furnishing and equipping additions to Kingston Elementary School.

KINGSTON COMMUNITY SCHOOLS
SCHEDULE OF QUALIFIED ZONE ACADEMY BONDS
June 30, 2006

The original amount borrowed during the year ended June 30, 2003 was \$944,638.

MATURITY DATE	PRINCIPAL
2006	\$ 55,362
2007	55,362
2008	55,362
2009	55,362
2010	55,362
2011	55,362
2012	55,362
2013	55,362
2014	55,362
2015	55,362
2016	55,362
2017	55,362
	<hr/>
	\$ 664,344
	<hr/>

Qualified zone academy bonds - 15 annual payments of \$55,362 from November 1, 2003 through 2017 will be paid into a bank escrow account with the entire principal amount due November 1, 2017.

KINGSTON COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT - 2005 REFUNDING BONDS
June 30, 2006

PRINCIPAL DUE MAY 1	RATE	INTEREST DUE		DEBT SERVICE REQUIREMENT FOR FISCAL YEAR	
		MAY 1	NOVEMBER 1	JUNE 30	AMOUNT
			\$ 32,842		
\$ 105,000	3.00	\$ 32,842	31,266	2007	\$ 170,684
115,000	3.00	31,266	29,541	2008	177,532
130,000	3.00	29,541	27,591	2009	189,082
145,000	3.25	27,591	25,235	2010	200,182
150,000	4.00	25,235	22,235	2011	200,470
150,000	4.00	22,235	19,235	2012	194,470
155,000	4.00	19,235	16,135	2013	193,470
165,000	4.00	16,135	12,835	2014	197,270
170,000	3.65	12,835	9,733	2015	195,670
170,000	3.65	9,733	6,630	2016	189,466
170,000	3.90	6,630	3,315	2017	183,260
170,000	3.90	3,315		2018	176,630
<u>\$ 1,795,000</u>		<u>\$ 236,593</u>	<u>\$ 236,593</u>		<u>\$ 2,268,186</u>

Bonds in the amount of \$1,820,000 were issued for the purpose of refinancing the 1996 bonds.



Gary R. Anderson, CPA
Jerry J. Bernhardt, CPA
Thomas B. Doran, CPA

Robert L. Tuckey, CPA
Valerie Jamieson Hartel, CPA
Jamie L. Peasley, CPA

**REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

July 20, 2006

Board of Education
Kingston Community Schools
Kingston, Michigan 48741

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kingston Community Schools as of and for the year ended June 30, 2006, which collectively comprise the basic financial statements of the District's primary government and have issued our report thereon dated July 20, 2006. Our opinion is for the primary government only and not for the primary reporting entity. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Kingston Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Kingston Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Board of Education
Kingston Community Schools
July 20, 2006

We noted certain matters that we reported to management of Kingston Community Schools in a separate letter dated July 20, 2006.

This report is intended solely for the information and use of the board of education, management, U.S. Department of Education, Michigan Department of Education and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants



July 20, 2006

Gary R. Anderson, CPA
Jerry J. Bernhardt, CPA
Thomas B. Doran, CPA

Robert L. Tuckey, CPA
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Jamie L. Peasley, CPA

To the Board of Education
Kingston Community Schools
Kingston, Michigan

In planning and performing our audit of the financial statements of Kingston Community Schools for the year ended June 30, 2006, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated July 20, 2006, on the financial statements of Kingston Community Schools.

Current Year Comments

Budget Enforcement by the Michigan Department of Education

The Michigan Department of Education is changing their enforcement and monitoring of budget violations. They are currently focusing on total expenditures violations that exceed 1% of the total expenditures budget and total other financing uses that exceed 1% of the total other financing uses budget. The Department of Education will be issuing letters to school board presidents, the superintendent and the chief business official when they identify these types of violations.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (Overspending your budget by line item).
- Ending the fiscal year with a deficit (negative fund balance).
- Adopting a budget that, when implemented, would put the district in a deficit.

The Department is also currently reviewing their interpretation of Section 17(2). This would be a situation where a district's actual revenues were less than budgeted revenues and, at the same time, depleted the fund balance, beyond what was approved in total by the school board.

We recommend you continue to review your current budget amendments during the year. There will be situations where there continue to be budget violations as disclosed in footnote 2 subsection 3 of the financial statements. While there may be technical violations of the act we believe the District's current budget procedures are adequate.

Cash Management – Federal Awards

The Michigan Department of Education has recently been notified that it, along with all other states, has misinterpreted the advance provision of the Cash Management Improvement Act (CMIA). The United States Department of Education started monitoring and auditing CMIA compliance and is notifying sub-recipients that advances are limited to three days cash needs. In other words, funds must be spent by the district within 72 hours of being drawn down from the USDE GAPS system. Because of this new awareness, the department will no longer allow 30-day cash advances for ongoing programs during fiscal year 2006/2007. 30-day cash advances may be permitted for new one-time federal grant programs at the discretion of program management.

We recommend the District request funds on a reimbursement basis in order to ensure compliance with the revised cash management interpretation.

Small Staff

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist because of the small accounting staff in the School District.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the “cost to benefit” relationship may not justify the addition of accounting staff to accomplish the desired segregation.

Due to the limited number of people working in the business office, we recommend that the Board review the schools internal controls. We also recommend that someone from the Board or administrative staff periodically review bank statements, bank reconciliations, and cancelled checks.

Internal Control Procedures

Since the receipts and disbursements of the athletic, hot lunch, and student activity funds are not under the same scrutiny as the general fund we recommend that the Board periodically review the internal control procedures of each of these funds.

We recommend that the District review internal control procedures for the athletic, hot lunch, and student activity funds including cash receipts procedures and expense approval procedures.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Kingston Community Schools, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Anderson, Tuckey, Bernhardt & Doran, P.C.

Anderson, Tuckey, Bernhardt & Doran, P.C.
Certified Public Accountants